

## 2 Big biotechs ready for an upswing

Glory days are in the past for Amgen and Genentech, but the stock price could recover this year.

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NEW YORK (CNNMoney.com) - Amgen and Genentech stock prices soared in 2005, but they lost their hot stock status in '06 as prices plunged. Is Big Biotech ready for an upswing, or is it all downhill from here?

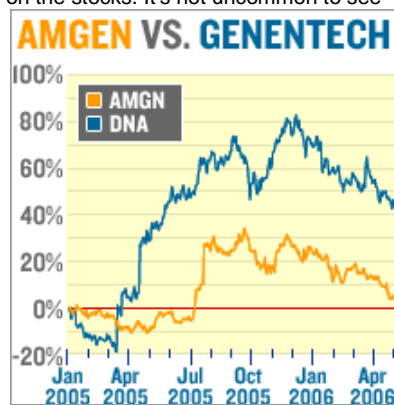
Upswing, say analysts. Stock prices for Amgen and Genentech, the biggest names in the biotech sector, are set to climb again this year, though the glory days appear to be over. "These companies are growing at pretty phenomenal growth rates," said Shiv Kapoor, analyst for Montgomery & Co. "Fundamentals are showing real value, but sentiment is weighing on the stocks. It's not uncommon to see that after a nice run on a stock. I think they'll be ready to move ahead in the summer." In 2005, these biotechs could do no wrong. The stock price for [Amgen](#) (up \$0.34 to \$68.24, [Research](#)), the biggest biotech in the world, climbed 23 percent in 2005 while [Genentech](#) (up \$0.18 to \$80.18, [Research](#)), the number 2, enjoyed a 70 percent surge. But 2006 is a different story: year-to-date, the price for both biotechs fell 14 percent. The biotechs reported first quarter earnings that beat consensus expectations with double-digit growth. But apparently, they failed to meet heady expectations of investors, and the prices for the company stock continued their decline. So why do analysts believe these biotechs are due for a recovery?

### Genentech

[Genentech reported](#) a 39 percent sales surge for the first quarter on April 11, with a 54 percent surge in profits. But the stock price has slipped 2 percent since the report came out. Genentech, based in South San Francisco, has long been considered an overpriced stock. Have its recent losses brought it within range for investors who no longer want to pay a premium? "The stock is certainly looking more attractive, pulling back as much as it has, but what I remained concerned about is the threat of competition," said Bernstein analyst Geoff Porges. Genentech's top-selling drugs serve the potentially lucrative but competitive and high-priced [cancer market](#). The top earner, Rituxan, a treatment for non-Hodgkin's lymphoma and rheumatoid arthritis, totaled \$477 million in first quarter sales, up 8 percent. Avastin, a first-line treatment for metastatic colorectal cancer used in conjunction with chemotherapy, totaled \$398 million in the first quarter, up 108 percent. "Genentech's major products appeared [in 2005] destined for almost infinite growth with lofty peak sales forecast, and I think what we are learning is that there are limitations to that growth, and those limitations come from competition and the very high prices for these drugs," said Porges. Porges said he is "advising investors to still be cautious about Genentech" to see "whether they'll be forced to cut prices on their cancer drugs." "I think the prices on their cancer drugs are certainly posing a challenge for the health care system and I think they will continue to pose challenges going forward," said Porges. "I won't say their prices are unsustainable, but we all know secretly that something's got to give." Genentech's stock price, which closed at \$80 a share on May 9, is projected to grow through the next 12 months. Porges has projected a price target of \$95, while Kapoor of Montgomery projects \$110. Jennifer Chao, analyst for Deutsche Bank, projects \$100 and Jim Reddoch of Friedman, Billings, Ramsey has a target of \$84.

### Amgen

[Amgen beat](#) expectations when it announced first quarter earnings on April 18, with a 17 percent jump in profit and a 14 percent in sales. The biotech's top-selling drug, Aranesp, a treatment for anemia and kidney disease, totaled \$893 million in first quarter sales. Amgen's Enbrel, a treatment for rheumatoid arthritis, totaled \$658 million in first quarter sales, while Epogen, an anemia treatment for dialysis patients, totaled \$604 million in the first quarter. Nonetheless, the stock price has dipped 4 percent since the earnings report. Like Genentech, Amgen is facing more competition in the cancer sector than its investors might have bargained for, said Porges. But while Genentech's stock dip has brought it down to a "supportable valuation," Porges said that Amgen's price plunge has knocked it down to a bargain, especially since he expects their earnings to grow 10 to 15 percent annually for the next two or three years. Amgen's stock price, which closed at \$67.90 a share on May 9, is expected to grow. Porges has a 12-month price target of \$91 a share and Kapoor of Montgomery projects \$100. Chao of Deutsche Bank North America has a 12-month price target of \$102, while Reddoch of FBR projects \$70. "It just so happens that Amgen is a screaming buy right now because it's priced like a pharma company," said Porges, who compared Amgen's PE ratio of 18 to Genentech's PE of 41.5. "The short takeaway for Amgen is that it's faster growth for a cheaper price." But at least for now, biotech stocks find themselves in the unenviable position of underperforming the troubled pharmaceutical industry.



BIG BIOTECH'S BLOCKBUSTERS		
DRUG NAME	2005 SALES	1Q 2006 SALES
<b>Aranesp</b> DISEASE TREATED: anemia and kidney disease	\$3.3 B	\$893 M
<b>Enbrel</b> DISEASE TREATED: rheumatoid arthritis	\$2.6 B	\$658 M
<b>Epogen</b> DISEASE TREATED: anemia in dialysis patients	\$2.5 B	\$604 M
<b>Rituxan</b> DISEASE TREATED: non-Hodgkin's lymphoma and RA	\$1.8 B	\$477 M
<b>Avastin</b> DISEASE TREATED: colorectal cancer	\$1.1 B	\$398 M
<b>Herceptin</b> DISEASE TREATED: breast cancer	\$747 M	\$290 M

SOURCES: THE COMPANIES

The analysts interviewed for this story do not own shares of Amgen and Genentech stock. ■